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THE EGYPTIAN PUBLIC DEBT.

BY CLINTON E. DAWKINS, FORMER UNDER SECRETARY OF STATE FOR FINANCE IN EGYPT.

It might be contended that an element of romance attaches in most countries to the annals of National Debts, in respect of the struggles and vicissitudes to which they relate, but in Egypt, a land where Finance spells Politics, the story of the Public Debt is pre-eminently romantic. Recklessly and prodigally contracted, that debt for years pressed with crushing severity upon the docile Egyptian peasantry, but the astonishing feature of its history is that, in the end, out of evil came good. The Public Debt, with its associations of grinding taxation and of the koorbash was destined itself to become the salvation of the fellaheen. Foreign intervention in the interest of the creditors brought with it the foreign control which has secured the Egyptian peasantry better conditions of life than they have enjoyed for centuries, possibly better conditions for the mass of the people than have ever been known on the Nile. Reform in Egypt grew out of the necessity of protecting the labor of the fellaheen and of securing them such immunity from extortion and maltreatment that the fruit of their toil would suffice to meet the obligations imposed upon them without their knowledge and without their assent. And this proposition stands, although it is true that foreign intervention has bound the burthen of debt tightly upon Egypt, whereas other countries, it is argued, if placed in similar circumstances, would have repudiated their obligations and proceeded after long years of haggling to some illusory compromise with an exhausted creditor. This was not possible in Egypt; the cause of the foreign creditors was espoused by the most powerful Governments of the Old World, and the irresistible voice of Europe insisted on full measure being paid.

All this must be admitted, and the action of Europe may be criticised. But no repudiation, however thorough, would have

compensated the Egyptian people for the continuance of despotic misgovernment and official torture and exaction, which was the alternative before them. The necessity of securing the interest on the foreign debt involved the termination of an era of frightful misgovernment and allowed the real inhabitants of Egypt, the fellaheen, to raise their heads at last.

To trace the origin of the Egyptian Public Debt we must cast a brief glance at the modern history of the country and at its physical conditions.

Egypt emerges into modern history at the touch of Napoleon and under the auspices of that "barbarian of genius," Mehemet Ali. For centuries, after the closing of the old caravan routes from the East and the circumnavigation of the Cape, Egypt ceased to be of political interest to Europe. Resuscitating, it is more than probable, but turning to another purpose, a project suggested to Louis XIV. by the philosopher Leibnitz, Napoleon suddenly brought Egypt back into the sphere of politics by seizing it as his vantage ground for attacking India. Napoleon failed; but he had revealed the strategic possibilities of Egypt, and that country could no longer be disregarded by England or by France. Mehemet Ali, with his ambitious bid for a great Syrian Empire, did not fail to force Egypt still more prominently upon European statesmen. The organized government which he established on the ruins of the Mamelukes, his passion for introducing into Egypt all the newest appliances and inventions of Europe, invited still further attention. And before long the invention of railways and steamships and the progress of engineering brought within practical range Leibnitz's idea of re-directing Eastern trade into the old channel in which the Venetians had once conducted it with such success.

Before Mehemet Ali died, with his last moments occupied by futile dreams of restoring his old ally Louis Philippe, the overland route was an accomplished fact, and the question was actively discussed whether it should be perfected by railways or by the traditional method in Egypt, the excavation of a canal.

It was out of the ordinary though crushing taxation of the country, enforced by the relentless koorbash, that Mehemet Ali provided for the improvements he introduced. But more gigantic schemes of public works and improvements clearly could not be met by the unaided exertions of the tax-gatherer, and to prose-

cute them the accumulated savings of Europe had to be drawn upon. Moreover, as the vista of material prosperity was opened up the unchecked imagination of the rulers of a most patient, long-suffering people was intoxicated by dreams of personal magnificence and aggrandizement. The beginnings of the Public Debt in Egypt are not to be traced, as in so many countries, to costly wars. Mehemet Ali paid for his great wars, and left no debt behind him. Personal extravagance in later rulers and ambitious programmes of public works led to borrowing; and in a country, and in an epoch, when the rulers treated the whole country as their private estate until gradually forced under external pressure to distinguish between their individual property and the public resources, it was by no means easy to separate what was dissipated by the Palace from other expenditure. But it may be at once roundly stated, though the subject will be touched on again later on, that the greater part of the money borrowed by Said and Ismail Pashas was squandered by them, or stolen from them, with no benefit whatsoever to the country as a whole.

Said Pasha, genial, expansive and autocratic, was the first ruler to be fascinated by ideas of the material development of Egypt, and to launch into a wild personal extravagance foreign to the dispositions of Mehemet Ali and of Abbas. There was much to encourage him.

Owing to the American civil war, the price of Egyptian cotton had risen with startling rapidity, bringing unimagined wealth to the Pashas, while Said was dazzled by the glowing prospects of wealth and importance with which De Lesseps tempted him to grant the Suez Canal concession. Said granted the concession. Moreover, he pledged himself to supply fellaheen diggers to the enterprise (in other words the corvée was to be put at the service of what de Lesseps described as his humanitarian objects), and the Pasha further subscribed for 177,642 founders' shares. Said did not live to pay up his subscription. But his personal extravagance obliged him before his death to raise a loan. The nominal amount was £3,292,800, and the loan was issued by Messrs. Fruhling and Goschen. The rate of interest was 7 per cent., with a sinking fund of 1 per cent., and the net proceeds of the loan to Said were about £2,640,000.

Said Pasha's death in 1863 brought the great Arch-Borrower,

Ismail, on the scene. Entering upon his viceroyalty with every profession of liberal ideas and of good government on his lips, Ismail at once took up his predecessor's engagement to the Suez Canal Company, and arranged to complete the payment of the £2,080,000. But there was also other expenditure to be met. Investiture of a new Viceroy at Constantinople was then the rule, and Ismail, already bent upon enlarging his title and prerogatives, had laid out money freely on the Bosphorus in conciliating the Sultan and in securing adherents. Abdul Aziz, moreover, on his side had found his new Viceroy's attentions so profitable that he at once returned the visit, and was gratified by an offering of £100,000 in return for his imperial courtesy.

The floating debt which Said had left behind him, as well as the first loan, now began to assume unmanageable proportions, and Ismail turned to the quarter whence his predecessor had derived assistance. The second Egyptian loan was also issued by Messrs. Fruhling and Goschen. But the terms this time were stiffer. Interest, as before, was to run at 7 per cent., but a 4 per cent. sinking fund took the place of the old 1 per cent. sinking fund. The nominal amount of the loan was £5,704,200; the amount encashed by the Viceroy was £4,864,000.

That same year, however, was distinguished by an incident which at once committed Ismail to further borrowing and paved the road to eventual insolvency. The Suez Canal undertaking had run a chequered course. In 1856 the charter had been granted; the canal was to have been completed in 1864. But in 1864 the canal was very far from finished and the enterprise was in dire straits. The Sultan had interfered, objecting to the alienation of territory involved in the land grant, and though the operations of de Lesseps had not been arrested by the Suzerain's scruples, the Egyptian Government found itself obliged to resume the greater part of the land grant to satisfy the Porte. The ceded strip was narrowed to 200 metres on either bank, but the Egyptian Government was to give reasonable compensation for the shrinkage. Again, the Viceroy, so it was alleged, had been unpunctual in his supplies of forced labor. The company, therefore, caught at the chance of securing fresh funds to continue its work, for it was to all intents and purposes bankrupt, by magnifying and pressing its claims on the Viceroy, while excusing its own *lâches*. It found a powerful ally.

A settlement of these charges and counter charges had become necessary, and the whole matter had been referred to the arbitration of Napoleon III., de Lesseps having a warm partisan and supporter in the person of the Empress.

The Emperor delivered sentence in July, 1864, and history probably records few more inequitable, if not iniquitous, awards.

The company obtained an indemnity of £3,360,000, of which £1,520,000 was given on account of the irregular supply of forced labor, while the resumption of land into which Ismail had been forced by the Sultan was atoned for by the monstrous payment of £1,200,000, and £640,000 was paid for taking over the fresh-water canal from Ismailia to Suez.

Worst of all, Ismail acquired the habit of supplying funds to the canal. In 1866 the company retroceded another piece of land. Ismail bought back the Wadi Tumilat for £300,000, which the company had acquired for £74,000. But this was an unimportant item. From first to last Egypt contributed according to the usually accepted calculation, £16,000,000 in terms of money toward the canal. According to de Lessps' figures the assistance amounted to £10,000,000. From this contribution may be deducted the £4,000,000, in round figures, paid by Lord Beaconsfield for the shares subsequently purchased by the British Government. But there were other indirect and far-reaching sacrifices made by Egypt. The productive powers of the country were seriously restricted by the diversion of thousands of the fellaheen each year from agricultural operations. Dragged away from his beloved "beled" under the blows of the koorbash the fellah was condemned to scoop up the sand in baskets to make the great trench through the desert, while agricultural land went out of cultivation. No loan was raised specially and exclusively by the Viceroy to finance the canal, but the floating debt created to discharge the obligations he had incurred or accepted drove Ismail headlong forward along his dangerous path. Borrowing was not long deferred, under these circumstances, but this time Ismail went through a new form of borrowing by pledging his private estate or Daira, and began the series of Daira loans. As there was no distinction between the public revenues of the country and the private income of the Viceroy (and we shall see that subsequently the Daira loans were assimilated to the direct state loans), borrowing on the security of the Daira amounted to an

ingenious method of varying one and the same pledge, with this advantage to the lender that he insisted on a somewhat higher rate of interest in view of a pretended difference in the security.

The first Daira loan of 1865 was negotiated by the Anglo-Egyptian Bank. Terms were becoming still stiffer. The loan, with a nominal capital of £3,000,000, was issued at 90; the rate of interest was 9 per cent., with a sinking fund of 3.27 per cent. One of the objects of the loan was to pay for the estate of Halim Pasha, a surviving son of Mehemet Ali, who had been forced to consent to sell at a price of £1,000,000. Next year Ismail shifted back again to his previous method, and a loan secured on the public revenue was announced. The so-called Railways loan of 1866 was a monument of extravagant finance. The nominal amount of the loan was again £3,000,000 at 7 per cent. The amount received was £2,640,000. By way of a sinking fund it was arranged that the £3,000,000 should be repaid (and it was so repaid) by six annual installments of £500,000, a rate equivalent to a sinking fund of 18.9 per cent., constituting, therefore, during six years an average charge of over 26 per cent. on the amount actually realized. In another twelvemonth the Viceroy who had feed the Porte heavily to concede him the somewhat meaningless title of Khedive, and had paid costly visits to London, Paris and Constantinople, harked back again to the Daira system of borrowing. Ismail was, indeed, badly in want of ready cash; Treasury bonds of all kinds had been issued, but they were taken at ruinous prices, and the market was gorged. Another forced sale of property had contributed to the situation. Besides buying the title of Khedive, the ruler of Egypt, desperately anxious to establish a regal dynasty, had induced the Porte to alter the law of succession and to vest the succession in the eldest son of the Khedive instead of the eldest surviving male of Mehemet Ali's family. Prince Halim, the original heir under the old law, had already been bought out, and it had seemed expedient to apply the same process again to Mustapha Fazil, the Khedive's younger brother. The second Daira loan, and fourth of Ismail's loans, was nominally brought out by the Imperial Ottoman Bank. The Mustapha Pasha loan of 1867 was for £2,080,000, interest at 9 per cent., plus a sinking fund of 3.4 per cent. It was issued at 90 per cent., but as payment was allowed in discredited floating debt bonds received at par the actual

amount received did not furnish Ismail's coffers very amply. The floating debt, after the operation, still remained at some figure between £25,000,000 and £30,000,000, while the total revenue of the country was at this time about £6,000,000. The Treasury bills were circulating at a discount of 16 per cent., while Daira bills were discounted at 22 per cent. Such a situation obviously demanded still more heroic measures, and more heroic measures were forthcoming. A forced national loan was attempted, but proved abortive. A grand state loan for £11,890,000 negotiated by the Oppenheims was the remedy; it was issued in 1868 to provide for public works, to pay off indebtedness to the Suez Canal, and to meet maturing bonds of the public debt. The issue price was 75, and the loan bore interest at 7 per cent., with a sinking fund of 1 per cent. Commission charges were also heavy, and the net amount received by the Treasury, partly, as before, in discredited bonds, was £7,193,000; the rate, therefore, paid on the amount realized was 13¼ per cent. This grand transaction was the prelude to an outburst of extravagance. For months Cairo lived in full carnival, and the Opera House (built mainly by forced labor) was at last opened. New taxes were at the same time piled on and exacted and over-exacted with the utmost rigor. A usual procedure was for a money lender to take with him chests of hard cash and accompany the tax collector in his tours in the provinces. Called upon to pay their taxes before the crops were ripe, the villagers, under the stimulus of the koorbash, were then and there obliged to borrow from the attendant Shylock and to assign their coming crops to him in payment. But nothing could stay the rising tide of expenditure. In 1869 the Suez Canal was at last opened. The festivities cost over £1,000,000. At the same time, in order to conciliate philanthropic sentiment in England, Sir Samuel Baker was dispatched on an expedition to suppress the slave trading on the White Nile, an enterprise which accounted for £500,000, and made the Soudan a drain upon Egypt. Further difficulties with the Suez Canal Company were also settled for £1,240,000 and the coupons of the Egyptian shares were assigned for the payment. Still more heroic measures were now clearly necessary to put the Khedive in possession of funds, but for the moment the Khedive dared not again pledge the public revenues. He had, indeed, undertaken when raising the loan for £11,890,000 in 1868 not to borrow again for five

years, but this did not prevent him once more having recourse to a Daira loan, the third and last. It was necessarily a tamer operation.

The Daira loan of 1870, arranged by Messrs. Bischoffsheim, was only for £7,142,860 at 7 per cent., with a sinking fund of 2.35 per cent., amounting together to a charge of nearly 13½ per cent. on the amount actually realized of £5,000,000. Side by side with this came an internal forced loan known as the Monkabalah or "compensation" loan. Land owners were pressed to pay six years' land tax in advance and in "compensation" the tax was to be reduced thereafter by 50 per cent. With much squeezing this precious expedient brought in about £8,000,000. When Egypt's house was finally set in order, owners of land who had subscribed were indemnified by an annuity of £153,750, payable for a term of fifty years. This repayment constitutes Egypt's internal debt.

But the curtain was now rung up for the climax of the financial tragi-comedy. In 1873 Ismail was once more free to pledge the credit, such as it was, of the country, and an excuse was to hand in the desirability of effecting a great economy by converting the floating into a funded debt. The floating debt was about £28,000,000 and carried an average rate of interest of 14 per cent. It was first proposed to raise a loan of £20,000,000, then of £26,000,000, and, finally, that nothing should be left out, the colossal sum of £32,000,000 was settled for the new loan. Messrs. Oppenheim negotiated the great operation. Everything in Egypt of the nature of a public asset that remained unpledged was now pledged, and in addition all revenues already assigned were mortgaged as soon as they should be released. The rate of interest was 7 per cent., with a sinking fund of 1 per cent., but subscription in part was allowed in Treasury bonds, and the amount realized by the Egyptian Treasury was about £20,740,000, the real charge for interest and sinking fund together on the net proceeds working out at 12.36 per cent. This great stroke, however, did not quite conclude Ismail's operations. The very next year, 1874, he managed to raise £3,000,000 for a twelvemonth from the Anglo-Egyptian Bank, a sum on which he paid 14 per cent. A year later saw him surrendering the 177,642 shares in the Suez Canal, originally subscribed for by Said Pasha, to the British Government in exchange for £4,000,000. As the

coupons had been detached up to 1894, and as Ismail received £450,000 more than had been paid for the shares, the bargain was the best he had ever made. And as the shares are now worth £24,000,000, and the revenue they will bring in this year is estimated at £850,000, Lord Beaconsfield's bargain for Great Britain has turned out one of the best ever made for any country.

At this point we may take leave of Ismail as a borrower. It is true that he remained Khedive till 1879, but after 1876 until his abdication the financial destinies of Egypt and the fortunes of its public debt passed under international control. In 1876 Messrs. Goschen and Joubert, strongly supported by the Governments of Great Britain and France, proceeded to Egypt on behalf of the bondholders, who were menaced by sheer inability on the part of Egypt to pay their interest. The result of their recommendations was embodied in Khedivial decrees in 1876 and in 1877, dividing the outstanding loans into four classes. The so-called State loans of 1862, 1868 and 1873 were split up between a United Debt of £59,000,000 bearing 6 per cent. interest with a further 1 per cent. as Sinking Fund; the remainder of these debts received priority as a Privileged Loan of £17,000,000, carrying 5 per cent. The loan of 1864 was treated together with the two Daira loans of 1865 and 1867, making a total amount of £4,392,616, on the various portions of which rates of interest of nearly 11, 12 and 12¼ per cent. were fixed. The Daira loan of 1870 and the Floating Debt were amalgamated into a third loan of £8,815,000 at 5 per cent. interest. The total of the whole debt was fixed at £89,208,000, and Egypt was called upon to bear a total debt charge of £6,565,000. Two controllers-general, an Englishman and a Frenchman, were appointed, and an International Caisse of four members, English, French, Austrian and Italian, was constituted to receive the interest for the bondholders. But the recommendations made by Messrs. Goschen and Joubert were made upon imperfect information. Facts had been misrepresented to them, and other facts had been concealed. The koorbash had been applied unmercifully in the preceding years to extract revenue out of Egypt. What flogging and torture had extracted it is impossible to estimate exactly. But the revenue of the country was officially estimated by the foreign consuls-general at between £9,000,000 and £9,500,000. It was impossible for Egypt to support a charge on her foreign debt that amounted to

over two-thirds of the revenue, and, with the tribute of Turkey added, ran up to over £7,000,000. The only possible method of meeting the coupons was by continually collecting the taxes ahead, and by subjecting the broken peasantry to ever increasing extortion. It was clear that this could not go on; and a partial failure of the Nile flood in 1877, bringing famine in its train, threatened inevitable collapse and repudiation. A searching commission of inquiry into both the revenue and expenditure of the Court, and into the entire fiscal and administrative machinery, was imperative. Ismail was forced to assent. In 1879 the truth was at last laid bare and the Commission agreed that the sources of all extravagance and confusion was the Khedive himself and that as long as Ismail retained his arbitrary power improvement and economy were impossible. Ismail bowed before the storm of public opinion; but with a fixed determination to escape from the restrictions placed upon him and to regain full financial liberty. He accepted the principle of Ministerial responsibility. The progressive and enlightened Armenian Christian, Nubar Pasha, was put at the head of the Ministry, and an Englishman and a Frenchman, Sir Rivers Wilson and M. de Blignières, were entrusted with the portfolios of Finance and of Public Works. This high comedy had a short run. Ismail at once set about inciting a movement among the fanatical elements of the population and the native officers, who were in arrears of pay, against the new Ministry. It was his design to prove to Europe that Mahommedan sentiment would not tolerate a Ministry containing Christians, and that the Khedive's arbitrary power could alone repress disorder in Egypt. A riot directed against the Ministers broke out, and Ismail appeared and suppressed it. But Europe had taken his measure, and the representatives of the Great Powers advised him to abdicate. For a moment the Khedive seemed prepared to defy them, and coercion would have involved many awkward questions. But his nerve failed him, and in June, 1879, he shuffled ingloriously off the stage to die an exile. He had succeeded during his rule in piling up a debt of over £66,000,000, contracted in seven regular loans, excluding the Domains loan, to which attention will presently be drawn. How far the money borrowed was wasted; what proportion was spent for the good of the country, it is impossible to discover. Such was the chaos of accounts! "I doubt my-

self," wrote Sir Alfred Milner in "England in Egypt," "whether the portion of Ismail's loans devoted to work of public utility—always excluding the Suez Canal—was equal to 10 per cent. of the amount of debt which he had contracted."

For this nominal debt for which he rendered Egypt liable, Ismail had received perhaps £41,000,000, and he had probably repaid in interest and sinking funds as much as £30,000,000. But, side by side with repayment, he had continually added to an unmanageable floating debt, and so contrived to swell the total unpaid balance of indebtedness.

Ismail's retirement was the prelude to a second recasting of the whole debt under European control, an operation carried out this time with fuller knowledge of all the circumstances.

A preliminary step toward this had been taken during his last days, rendered inevitable by the special and crying difficulty of the Floating Debt. In order to deal with this the European controllers and "Christian Ministry" had induced Ismail to surrender 435,000 acres of his private estates as security for a loan of £8,500,000 to be devoted to liquidating floating obligations. Yet in spite of the assistance of the Rothschilds this loan, which is known as the Domains Loan, though it was issued on the same kind of security as the previous Daira loans, was only issued with an interest of 7 per cent. at 73. The net result, therefore, came to some £6,276,000: and as £1,250,000 was assigned to the November Coupon of the previous debt and a further £500,000 to the tribute due to the Porte, the balance that could be utilized for liquidating the Floating Debt was not too considerable, and this Floating Debt had still to be taken into account in the great rearrangement sanctioned by the Law of Liquidation of July 17th, 1880, to which the Great Powers became a party. The Law of Liquidation followed the same lines as the Goschen-Joubert settlement of four years previously, but it was framed, as has been stated, with fuller knowledge of the resources and needs of the country. The Floating Debt was at last extinguished and the principle of consolidating the various loans into a few great loans was carried still further, while the interest was reduced to an amount the country might possibly pay without incurring fresh debt to discharge the recurring coupons. Yet, even with these reductions, Egypt was called upon to devote nearly half of its total revenue, then about £9,000,000, to the service of the debt,

while taxation, though the actual collection of taxes was regularized and rendered less oppressive, bore very severely on the impoverished population.

The two subjoined tables will show the progress made with the debt between 1876 and 1880:

DEBT AS FIXED ACCORDING TO THE PROPOSALS OF MESSRS. GOSCHEN AND JOUBERT IN 1876 AND 1877.

	Nominal Capital.	Rate of Interest.	Interest.	Sinking Fund.	Total Charge.
Unified debt	£59,000,000	7 per cent.	£3,540,000	£637,700	£4,177,700
Privileged debt	17,000,000	5 per cent.	850,000	35,744	885,744
Loans of 1864, 1865, 1867	4,392,616	10.87 " / 12.27 " / 12.4 "	317,295	743,515	1,060,808
Daira	8,315,430	5 per cent.	440,771		440,771
Total	£89,208,046		£5,148,066	£1,416,957	£6,565,023

LAW OF LIQUIDATION 17TH JULY, 1880.

Unified	£58,018,240	4 per cent.	£2,320,729		£2,320,729
Privileged	22,629,800	5 per cent.	1,131,410	£55,914	1,187,404
Daira	9,386,750	4 per cent.	375,470		375,470
Domains	8,500,000	5 per cent.	425,000		425,000
Total	£98,559,790		£4,252,689	£55,914	£4,308,603

It will be seen that the Unified Debt had been reduced in the four years by redemption. The Privileged Debt was increased by a further issue in order to pay off the Floating Debt, an operation for which the Domains Loan had not sufficed, while other loans were thrown together with the old Daira loan. But the total debt was made more tolerable by the reduction of the rate of interest and by the suspension of various sinking funds, notably by a reduction from 7 to 4 per cent. in the interest on the Unified Debt. The principal of the debt was, indeed, increased, but the total annual charge on Egypt was reduced from £6,565,023 to £4,308,603.

The task before Egypt, therefore, of paying its way, hard as it was (and it was still very hard), had been rendered practicable. Success seemed assured and the service of the debt was maintained while even the capital was reduced by a million in the next two years. The door appeared closed against further borrowings. But the door was to be pushed open again by various necessities, political and administrative. The European control exercised through the English and French condominium under which the country had passed on Ismail's abdication was fated to receive rude shocks, and was destined to an early dissolution.

Ismail had sown the seeds of trouble. In inciting the Egyp-

tian officers to break out against the Nubar Ministry, he had taught them a lesson they had learnt too well. Certain revenues, the receipts of the railways, telegraphs and of the Port of Alexandria, together with the customs receipts and revenues of the four richest provinces, had been entirely assigned to the Debt. Hard retrenchment was necessary, if the £4,500,000 or so of revenue remaining to Egypt was to suffice, and retrenchment in the army was an obvious economy.

But the military officers, while protesting against retrenchment in their case, had also a special grievance. The Khedivial dynasty, foreign in its origin, had always reserved the higher posts in the army for Turks and Circassians. The military prestige of the Turks, however, had been impaired by the Russo-Turkish war, and the growing feeling of "Egypt for the Egyptians" led the Egyptian-born officers to demand admission to the higher posts. Side by side with this movement another manifestation of national feeling was making itself felt. The new Mixed Tribunals, owning jurisdiction in civil cases between foreigners and natives, had suddenly confronted the impoverished and indebted fellaheen with the summary processes of eviction, a thing practically unknown in a Mahommedan country, where interest is not recognized by Mahommedan law or sentiment, and the recovery of a debt is settled by a long process of haggling. Widespread misery and dismay lent force to what had, in its inception, some promise of being a serious national movement, with demands for reforms inscribed upon its banner, many of which have since been carried out. The two movements—military and national—at first regarded each other with no friendly eye. But the policy of the condominium was neither decided nor sincerely united, and gave rise to many false hopes and illusions. When at last, in 1881, England and France joined in Gambetta's famous Identic Note, threatening foreign intervention, an appeal was made to the fanatical prejudices of the people, and the two Egyptian parties rapidly drew together, while the guidance of the agitation passed to the more violent elements in the country. The result is well known. Foreign intervention became inevitable. France held back, the dominant sea power in the Mediterranean was forced to act, and the control and regeneration of Egypt devolved upon a reluctant, and at first half-hearted, England.

Arabi's rebellion had made Egypt in the meantime liable for

the losses incurred by foreigners when the retiring Egyptian troops set Alexandria on fire. Moreover, as a measure of sheer necessity in order to enable Egypt to pay her way, and to avoid plunging Europe once more into international complications, it had been decided to abandon the Soudan to the forces of Mahdism, and further claims for indemnities arose as a consequence of this bitter necessity. A new loan to pay off all these new obligations was necessary. And it was equally necessary to readjust the distribution of the revenue between the bondholders and the Government Under the law of liquidation the assigned revenues were devoted exclusively to the debt. If these revenues yielded a surplus after the coupons had been paid, that surplus was devoted to the reduction of debt, while, meantime, the unassigned revenues might fall far short of the inevitable needs even of a government conducted with the strictest economy. In 1883, for instance, £800,000 of debt bearing 4 or 5 per cent. interest was discharged, while the governmental expenditure was exceeded by about £1,650,000. In other words, Egypt paid off debt bearing 5 per cent. interest at most with one hand, while with the other she was obliged to contract short loans at higher rates of interest, or else to allow the administrative machinery to get out of gear on the regular working of which the collection of the revenue necessary for the service of the debt depended. The absurdity of the situation was obvious, but the assent of the Great Powers and of Turkey was necessary to any new arrangement, and negotiations were protracted. At length they were concluded, and the Convention of London emerged from out the wilderness of discussion in 1885, superseding and modifying the law of liquidation. That convention remains to this day the organic law, and it is an international law, of Egyptian finance. It dealt with two principal difficulties: the distribution of the revenues between the Government and the bondholders, and the liquidation of the Alexandria and Soudan indemnities.

The first difficulty was dealt with in an extremely ingenious manner. It was imperative not to diminish, and desirable if possible to increase, the security of the bondholders. It was equally imperative not to drive Egypt into piling up fresh obligations at a higher rate of interest while paying off debt bearing a lower rate of interest.

The service of the debt was therefore made the first charge

upon the revenues of Egypt. The second charge was a fixed amount appropriated to what was considered the necessary "administrative" expenditure of Egypt. The revenues assigned to the debt were called upon, after providing for its service, to meet, if necessary, any unpaid portion of the administrative budget. Any surplus that might remain over after providing for these first two charges was to be devoted, half to paying off debt or creating a reserve fund for the bondholders; the other half to such administrative purposes as the Government might determine. The "authorized" expenditure of the Government was fixed at £5,370,-000, in round figures, one or two items being fluctuating.

But this amount, though sufficient with strict economy for the needs of the Government at the time, has since proved inadequate. The progress of Egypt has therefore depended in a great measure upon the gradual augmentation of the sum appropriated to the authorized expenditure. No addition to the appropriation can be made without the consent of the Powers, or, in other words, without the consent of France, which has viewed with inveterate jealousy any measure that, however it might tend to promote the prosperity of Egypt, may tend at the same time to ensure solvency and to remove to a further distance any prospect of a financial breakdown which would enable France to bring once more before Europe the question of Egypt and of the informal predominance of Great Britain on the Nile. Hence the additions that have been sanctioned to the authorized expenditure (while at the same time the security of the bondholders is being steadily increased by improved administration) have consisted either of items of expenditure such as city drainage, which have chiefly concerned the European residents, or of items such as a contribution to the cost of abolishing the corvée, which the French Government found itself unable to resist without incurring most undesirable political odium in Egypt.

The amount of authorized expenditure now exceeds £6,150,000. But the total administrative expenditure of the Government exceeds this figure by some £400,000. Therefore, in so far as the Government desires to increase expenditure beyond the authorized amount, it can only do so out of its half share in any surplus that may remain over after (1) the service of the debt, and (2) the authorized expenditures have been met. In other words, the Egyptian Finance Department, before meeting any extraordinary

need or undertaking any new improvement, has to see that there are two pounds before it can dare to spend twenty shillings.

No doubt this is a check upon extravagance, and would be admirably adapted to curb the extravagances of an Ismail. But, though it may be salutary, it undoubtedly does starve improvement in Egypt under the very different regime now existing.

The liquidation of the Alexandria and Soudan indemnities was an easier matter. Egypt was authorized to raise a loan of £9,000,000, guaranteed by all the Powers, to take precedence of all existing loans. An annuity of £315,000 was provided for the service of the loan, and ranked as the first of all charges upon the revenues assigned to the debt. The loan, ushered in and sponsored after this manner, was a great success. The nominal amount borrowed to obtain exactly £9,000,000 was only £9,424,000, and as the rate of interest was fixed at 3 per cent., the annuity not only provided for the interest, but left a balance over from the beginning to be applied to reduction of the principal. Eight millions of the new loan, the guaranteed loan, as it is called, were applied to paying off the indemnities and the deficits of the last few years, while a million was left over.

The story of this million is one of the most fascinating in the annals of finance. For a country which had ruined itself by borrowing, to borrow yet another million under no compulsion, but while still deeply entangled in a financial slough, seemed on the face of it a last imprudence. Yet the million was borrowed and was devoted to the great need of Egypt, improved irrigation. Nearly one-half of it was devoted to one single work, to completing and rendering practical, under the auspices of Sir Colin Scott Moncrieff, the famous barrage designed by Mongel Bey, to hold up the water of the Nile at its bifurcation below Cairo, instead of allowing the flood to stream uselessly away to the sea, and thereby to raise the water level through all the canals of the Delta and run fertilizing rills into districts which had hitherto lain parched.

How many times this half million has been repaid by the consequent increased prosperity of the country it is impossible to say. In this last year, 1900, but for the barrage, the low Nile would certainly have involved the almost entire loss of the cotton crop of the Delta, Egypt's great staple crop.

From this time forward the history of the Egyptian debt flows in a less troubled stream. Yet it is full of interest, and

every detailed event throws light upon the extraordinary political circumstances of the country. In 1887 it was wisely decided, in view of the physical conditions of Egypt, in other words, Egypt's dependence upon an uncertain Nile flood, that it would be more prudent, instead of applying every surplus piastre in the hands of the International Commission of the Debt (increased in number from four to six by the addition of a Russian and German during the negotiations of 1885), to accumulate the money until a reserve fund of £2,050,000—two millions of Egyptian pounds—had been accumulated. As soon as that figure was reached reduction of debt was to be resumed; but power was given to the Commissioners to grant sums out of the reserve fund for "extraordinary expenditure incurred with the previous consent of the Commissioners of the Caisse."

How this simple and prudent provision became a source of international dispute I shall have to recount later on.

The next event in the progress of the debt bears striking evidence to the recovery of Egyptian credit under the auspices of Lord Cromer, the representative of the predominant Power in Egypt. A brilliant page has been added to the history by the extraordinary success of the steady administration and of the conservative reforms conducted under the English occupation in the teeth of much political obstruction, and in the midst of a bewildering maze of international obstacles. In eight short years Egyptian credit rose so high that it became possible in 1890 to convert the privileged debt and to reduce the interest from 5 to 3½ per cent.

Opportunity also was taken at the same time to obtain a further sum of £1,330,000 on easy terms for irrigation and an additional amount was added of £2,330,000 in order to relieve the Egyptian Treasury of certain annual payments made to the Khedivial family. These two items account for the larger part of the increase in the nominal amount of the privileged debt rendered necessary by conversion. The capital of this debt was now raised from £22,296,000 to £29,400,000, but the saving in annual interest was nearly £113,000. At the same time it was found possible to deal with the Daira debt, not in this case by a direct reduction in the rate of interest, but by reducing the capital value of this debt by 15 per cent. The saving in the total annual debt charge consequent upon these operations came to over £320,000 a

year. It was intended to apply this money to the abolition of the corvée by the substitution of paid labor instead of forced labor for cleaning the canals, the forced labor constituting a severe tax on the poorest inhabitants. But to the astonishment of all the world the consent of France was withheld to so obvious and so just an arrangement. The fellaheen might suffer, but no reform which could be stopped was to be carried out, if it redounded to the prestige and popularity of the English occupation. In the long run, after much discussion and bad feeling, the Egyptian Government achieved its object. France was obliged to consent to an addition of £153,000 to the "authorized expenditure" on account of the corvée. But France insisted, and has persisted in its original refusal. The Conversion Economies, as a result of this refusal, instead of being applied to the reduction of the corvée, and to many other useful reforms, have been passed into a Conversion Economies Fund as a further security for the bondholders. This fund is devoted to the purchase of Egyptian securities; the interest on these securities being again devoted to further purchases of Egyptian stock.

These purchases, which constitute Egypt *pro tanto* the holder of her own debt, operate as a sinking fund. But it is a very expensive and unjustifiable sinking fund forced upon Egypt by the jealousy of France. Egypt, instead of being allowed to draw bonds at par, has to gain control of them by purchases in the open market, and by this system of continual obligatory purchases Egypt forces up the price against herself. In other words, instead of paying £100 to redeem £100 of debt, Egypt has to pay £105 or £106, a figure which may conceivably rise, if the process continues, to £110, or even to £120.

Still another reserve fund remains which must be explained, though its relation to the public debt is not so direct. This is formed out of the free balances which the Egyptian Government may save out of the money coming to it for yearly expenses in the various ways enumerated above. This special reserve fund, as it is termed, amounted on the 31st of December, 1899, to some £250,000.

Here, then, we have the institution of the third of the reserve funds which render any account of Egyptian finance so puzzling. First, as we have seen, there is the general reserve fund, which must amount to £2,050,000 before the unified debt can be paid

off, and out of which grants or loans can be made by the Commissioners of the Caisse de la Dette.

At the close of 1899 this fund amounted to £3,600,000 in round figures. This amount, it will at once be observed, exceeds the £2,050,000 to be accumulated before debt is paid off. But as over £1,600,000 has been pledged or assigned as a guarantee for certain public works it is not considered that a free £2,050,000 has been accumlated. This fund is invested in Egyptian securities.

Next there comes the conversion economies fund, which cannot be applied to public objects, but rolls up automatically through the re-investment of the interest accruing on the Egyptian stock in which it is invested. The amount of this fund is over £3,640,000.

Lastly, there is the Government's special reserve fund. The history of the Egyptian debt, however, would not be complete without mention of an incident which, arising out of the international conventions regulating the debt, became a matter of moment in European politics. It grew to be the habit of the Egyptian Government to look with confidence to the general reserve fund for grants or guarantees for public works. The fund is administered by the six international commissioners in a spirit of enlightened regard for Egyptian interests, and no criticism can be passed upon the individual commissioners, who reside in Egypt, although the commission itself is an unnecessarily cumbrous and expensive body. Moreover, another consideration besides their genuine regard for the country has contributed to make the commissioners adopt a liberal attitude in regard to grants for "extraordinary expenditure." The holders of unified bonds are in no hurry, with the bonds standing at 105 or 106, to be paid off at par. This is particularly the case of French holders, who constitute a very large proportion, probably half, of the holders, and who have come to look upon Egyptian unified as a sound family investment. The commissioners fear odium if the general reserve fund exceeds the statutory £2,050,000. Whereas, therefore, in earlier days before the general reserve fund approached two millions the Egyptian Government had to make out a very strong case for a grant of money, the position is now virtually reversed. It is the Caisse which really approaches the Government nowadays to see if some justification of a grant cannot be found to keep the unpledged portion of the fund well within the two millions.

Accordingly, when the Egyptian Government determined on the Soudan War in 1896, it naturally had recourse to the Caisse for a grant-in-aid of half a million. The majority of the commissioners acceded, and the money was paid, but the French and Russian commissioners instituted proceedings in the Mixed Courts to compel the Government to restore the money. This procedure opened up a number of serious questions, besides gravely complicating the relations between Great Britain and France.

The Mixed Courts, it was generally held, had no jurisdiction over the Egyptian Government in its acts of sovereignty. Yet the Courts, though avoiding a decision on this large question, entertained and did not reject the suit. The next question was whether grants for military expenditure were or were not capable of inclusion in the extraordinary expenditure for which the Caisse was authorized to make grants. The language of the decree authorizing grants for extraordinary expenditure in no wise excludes grants for military purposes, and therefore the onus of proving that a grant for this purpose could not come within the scope of the decree clearly lay upon the objectors. But the Court, whose proceedings throughout evoked considerable suspicion of partisanship, came to a contrary decision, and eventually ordered the repayment of the money, while discreetly leaving open most of the fundamental issues involved. The Egyptian Government accepted the position, and refunded the money—which was immediately granted to the Egyptian Government by the Government of Great Britain. A curious, and, at one time, rather threatening international episode was in this way brought to a conclusion satisfactory to Great Britain and Egypt, and most unsatisfactory to France, which had provoked it.

Since this episode the Egyptian debt has not reappeared upon the political arena, but its credit has risen continually higher, and Egypt is steadily becoming a larger owner of her own securities.

At the end of 1899 the nominal capital of the Egyptian debt stood at £103,049,000, of which £7,494,000 was in the hands of the Commissioners of Debt, *i. e.,* was held by Egypt. The total amount in the hands of the public was therefore £95,555,000. And the interest charge on the whole debt was £3,862,000.

These figures may with advantage be compared with the figures of the 1877 settlement, and of those given by the law of liquidation:

	Capital of debt in hands of public.	Total debt charge.
1877	£89,208,6[illegible]6	£6,565,023
1880	98,559,790	4,308,603
1899*	95,550,000	3,862,000

A certain amount of these last two loans is paid off every year by the proceeds of sales of portions of the land on which they are mortgaged. But under international conventions the amount of annual redemption is limited, and these loans, as well as the privileged loan, cannot be converted or paid off till 1905.

In that year great changes may be made in the Egyptian debt. An arrangement has been made with a syndicate whereby the unsold Daira estates are to be taken over by the syndicate in that year; the outstanding capital, which is still over £6,165,000, will be cancelled, while, in addition, a certain share in eventual profits from resales of the land is secured to the Egyptian Government. Moreover, the Government will be free to deal with the privileged debt at the same date, and it will be open to Egypt, should it seem fit, to cancel this debt by turning over its railways to a company. Such an operation might pave the way to an eventual conversion of the great unified debt. However, prophesies in such a matter are unwise, but if Egypt maintains anything like her recent rate of progress the existing debt, gigantic as it may seem, might be extinguished soon after the middle of the twentieth century.

Meanwhile, those who are responsible for the welfare of Egypt are again showing their faith in borrowing for reproductive purposes, and a further issue of £1,740,000 of privileged debt has been arranged, which will be devoted to public works or to clearing off advances from the general reserve fund granted for that purpose.

C. E. DAWKINS.

* Note that between 1880 and 1899 it had been necessary to raise the Guaranteed Loan of £9,000,000.